NACC

North American Competitiveness Council
Consejo de Competitividad de América del Norte
Conseil nord-américain de la compétitivité

ENHANCING COMPETITIVENESS IN CANADA, MEXICO, AND THE UNITED STATES

PRIVATE-SECTOR PRIORITIES FOR THE SECURITY AND PROSPERITY PARTNERSHIP OF NORTH AMERICA (SPP)

INITIAL RECOMMENDATIONS OF THE NORTH AMERICAN COMPETITIVENESS COUNCIL (NACC)

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EXECUTIVE SUMMARY

Since 1993, the North American Free Trade Agreement (NAFTA) has contributed significantly to the economic competitiveness of Canada, Mexico, and the United States. Economic competition, however, has continued to intensify globally as emerging powers such as China and India transform patterns of trade and investment worldwide. Within this context, North American companies are experiencing intense pressure to remain competitive. It is vital to ensure that the necessary focus since 2001 on increasing security does not undermine the economic efficiencies created by the NAFTA.

To address this critical strategic challenge, the Leaders of Canada, Mexico, and the United States in 2005 launched the Security and Prosperity Partnership of North America (SPP); and at their summit in Cancún in March 2006 they agreed that greater private sector engagement would help the three governments in their efforts to enhance North American competitiveness through the SPP. The creation of the North American Competitiveness Council (NACC) reflects the recognition that private sector involvement is a key step to enhancing North America's competitive position in global markets and is the driving force behind innovation and growth.

The trilateral NACC was given a mandate to propose concrete recommendations on issues of immediate importance as well as strategic medium- and long-term advice to security and prosperity ministers and to the Leaders.

Following extensive consultations with hundreds of companies, sectoral associations, and local chambers of commerce, members of the trilateral NACC have offered suggested priorities and initial recommendations for the SPP in the following areas: border crossing facilitation, standards and regulatory cooperation, and energy integration. This document discusses the challenges and opportunities in each of these three areas and offers recommendations for action that can be accomplished in the short, medium, and long term.

The first priority, improving the secure flow of goods and people within North America, is essential to the global competitiveness of enterprises in all three countries. Because production patterns within North America have become so closely integrated, any tightening of the borders between Canada, Mexico, and the United States threatens to erode the North American advantage created by the NAFTA. Goods imported into North America from overseas face customs inspection only once; goods produced and sold within the region, however, typically must cross borders many times as value is added to raw materials that eventually become finished goods.

Every measure that adds to the cost or time to cross borders within North America is in effect a tax on enterprise, a tax on investment, or a tax on jobs across the region, which ultimately results in incremental costs for the consumers in all three countries. Through the SPP, government Leaders have recognized that ensuring the safety and prosperity of the citizens of all three countries requires us to work together, and to the greatest extent possible, ensure that decisions about security and about economic policy are mutually reinforcing rather than conflicting. The members of the NACC from all three countries agree that it is possible to achieve real progress in helping the North American economy work better as a whole while strengthening the security and well-being of citizens.

The section on border crossing facilitation makes recommendations for action in the following areas: emergency management and post-incident resumption of commerce, expansion and improvements to border infrastructure, the movement of goods, and the movement of people. These recommendations are focused on actions that could be taken to make concrete improvements to the efficiency of commercial exchanges within North America.

The SPP recognized that another key element to expanding economic opportunity for the people of North America is to cut red tape and give consumers better access to safe, less expensive, and innovative products. Although regulatory policy in Canada, Mexico, and the United States is often driven by similar goals, the regulations themselves often differ in ways that impede the efficiency and competitiveness of businesses in all three countries. While potentially significant cost savings make regulatory cooperation desirable, the need to increase North American competitiveness is making it imperative. Minimizing minor differences between standards and regulations in all three countries would remove wasteful duplication and reduce costs for businesses, consumers, and governments.

The section on standards and regulatory cooperation therefore supports the intention of governments to work toward a framework for trilateral regulatory cooperation in 2007. This framework is an essential tool for ensuring the compatibility of new regulations. It also provides a foundation for efforts to reduce unnecessary differences in existing rules and standards. In considering the path forward in North America, this section also suggests the critical need for regulators and businesses alike to engage actively in the development of global technical standards. The standards and regulatory cooperation section then makes recommendations for specific action in the short term in three sectors—food and agriculture, financial services, and transportation—as well as for enhanced cooperation in the protection of intellectual property rights, which is the critical foundation of competitiveness in today's knowledge-based economy.

The section on energy integration addresses a third vital issue of competitiveness related both to economic opportunity and to security. The prosperity of the United States relies heavily on a secure supply of imported energy. Canada's vast oil sands, now that technological innovation has made this a competitive energy source, have given that country the second-largest conventional reserves in the world after Saudi Arabia. Mexico, while blessed with abundant reserves, faces major challenges in attracting capital and developing the human capacity needed to realize the potential of its resources for the benefit of its people. All three countries face a range of common challenges as well, such as the development and deployment of clean energy technology.

The energy section includes recommendations for trilateral action that focus on enhancing the security of energy supply through effective integration of cross-border energy distribution systems, development of human resources (both skilled trades and degreed professionals) in the energy field, joint development of efficient and clean energy technologies, and further cooperation among public and private stakeholders and experts in the sector. This section also includes recommendations that could help accelerate Mexico's development of its energy resources. The NACC acknowledges that given the strategic importance and nature of the Mexican energy sector, Mexicans should set and lead the initiatives that will increase the competitiveness in their energy sector.

The NACC has chosen to focus its initial work and recommendations on practical suggestions for rapid improvements to North American competitiveness. However, we suggest that to make the most of the diverse strengths that the three North American partners bring to the table, a range of broader and more strategic issues deserve serious consideration in the years ahead.

As an ongoing initiative, the NACC will meet regularly with ministers responsible for both security and prosperity in all three countries and will make recommendations to the Leaders annually. The regular meetings between ministers, senior officials, and the NACC, complemented by ongoing consultations with other interested stakeholders, will help ensure that the SPP remains a solid foundation for the expansion of collaborative efforts to increase investment and create more and better jobs in communities across North America.

In addition, while the NACC was expected to develop recommendations focused primarily on issues to be addressed by the governments, it was also challenged to provide suggestions on how the private sector might itself be able to assist in promoting North American competitiveness as part of the solution. With this in mind, the priority for now is to ensure that governments and the private sector work together effectively in strengthening the competitive position of enterprises operating in Canada, Mexico, and the United States.

RECOMMENDED ACTIONS FOR 2007

This report covers a great deal of ground and makes more than 50 recommendations in total. In doing so, the NACC has tried to indicate what could be seen as reasonable time frames for accomplishing results, dividing recommendations into those that we consider can be accomplished immediately, those that can be accomplished before the end of 2008, and those that will require somewhat longer to address, with a goal of completion by 2010. Refer to Appendix IV for a summary of the recommendations for 2008 and 2010.

It is important to note that these are dates that we recommend for completion and should in no way be viewed as start dates. But the NACC strongly believes that significant progress can be made quickly, and would like to highlight the following recommendations on which the Leaders can and should take action during 2007. These recommendations are:

1. **Speed up development of national critical infrastructure protection strategies.** All three North American governments should complete their national critical infrastructure protection strategies and vulnerability assessments within the next 12 months. One of the most important next steps to critical infrastructure protection is establishing a set of rules that provide legal protection for companies that conduct risk assessments and share information on vulnerabilities with the appropriate government entities.
2. **Enhance emergency management and pandemic preparedness through expanded use of specific disaster planning and simulations.** Emergency preparedness simulations, with the involvement of the private sector, have proven to be very useful. They should be conducted on a regular basis across a range of threats and border points.
3. **Agree to implement before the end of 2007 planned land preclearance pilot projects.** Moving customs processes further away and inland from the actual border crossings has the potential to reduce border congestion considerably. The original 30-point Smart Border accord called for development of land preclearance pilot projects, and most of the issues surrounding these projects seem to have been resolved. The governments should move quickly to complete their evaluations and negotiations and move forward with implementation.
4. **Improve the benefits of voluntary business participation in security programs.** More efficient and faster processing at the border and elimination of duplicative applications will result in increased participation in these programs, especially by small and medium-size enterprises.
5. **Further simplify the NAFTA rules-of-origin requirements.** Two phases of simplification to the rules of origin under the NAFTA have been completed successfully, covering more than US$30 billion in trilateral trade. A third

phase of public consultations has just been completed, and the resulting package of proposals for further simplification should be implemented as soon as possible. The next step should be to complete the planned technical changes to the rules-of-origin requirements flowing from changes in the harmonized system of tariff classification on schedule in 2007 and then begin a fourth phase that would reduce transaction costs within North America by simplifying rules-of-origin requirements.

6. **Simplify the NAFTA certification process and requirements.** The long-term goal should be to eliminate the NAFTA certificate on shipments. In the short term, targeted changes could reduce a significant administrative burden on producers and increase their flexibility in sourcing components for use in the production of finished goods by making it easier to qualify for the NAFTA duty-free rates.

7. **Withdraw or suspend the U.S. Animal and Plant Health Inspection Service (APHIS) interim rule of August 26, 2006.** APHIS failed to engage stakeholders prior to issuing this interim rule, which removes the exemption from user fees for all conveyances and airline passengers originating in Canada. The governments of the United States and Canada, in consultation with the private sector, should launch bilateral discussions to identify legitimate risks related to plant pests and animal diseases and to determine the most appropriate means of mitigating these risks while minimizing disruption to legitimate trade.

8. **Sign a new North American Regulatory Cooperation Framework and ensure consistent application of standards and regulatory requirements within each country.** This framework should be based on the principle that both in drafting new regulations and in revising existing rules, regulatory authorities in all three countries should make every effort to reflect prevailing North American or international standards. Upon signature of the framework, a North American Regulatory Cooperation and Standards Committee should be formed to survey the variety of standards and regulatory differences by industry that impede trade. This committee will also seek to reduce the identified differences or develop other mechanisms to lessen their impact on the competitiveness of North American industry.

9. **Require regulators to reference international technical standards.** Regulators drafting or revising rules in any of the three countries should be required to consider international technical standards where they exist. Governments and industry should participate actively in the ongoing development of such standards globally.

10. **Eliminate withholding taxes on cross-border interest payments between Canada and the United States.** This measure can be implemented through the bilateral tax treaty talks that have been under way for several years.

11. **Build capacity and enhance cooperation in financial regulation.** Identify issues of common financial regulatory concern through consultation forums with key U.S., Canadian, and Mexican financial experts from the public and private sectors. Evaluate current technical assistance programs for bank, securities and insurance regulators and supervisors, and encourage trilateral collaboration in the development of training programs for financial regulators.

12. **Modify the air cargo transport services agreement between the United States and Mexico.** The two countries should agree to provide for open and unrestricted Fifth Freedom traffic rights at intermediate points between the two countries and beyond each others' territory. Mexican air cargo carriers would be allowed to operate beyond points in the United States to points in Canada, Asia, and Europe and elsewhere, and U.S. air cargo carriers would be allowed, insofar as Mexico is concerned, to operate beyond points in Mexico to points in Central and South America, the Caribbean and so on. Affording such rights may well have a positive effect on the viability of marginal routes between the United States and Mexico, which currently receive insufficient or no direct air cargo service. For example, if U.S. carriers could operate beyond Oaxaca to Guatemala City, they might be able to justify increased service between Oaxaca and their gateways and hubs in the United States. Similarly, if Mexican cargo carriers could operate beyond Los Angeles to Asia, they might be able to justify increased service between their gateways and hubs in Mexico and Los Angeles.

13. **Complete a coordinated Intellectual Property Rights (IPR) Strategy.** The tripartite Intellectual Property Rights Task Force should develop an action-oriented, practical IPR strategy for approval of ministers early in 2007. Sector-specific industry-to-industry working groups should be formed as soon as possible and develop industry-specific action plans.

14. **Develop a public-private North American initiative to tackle counterfeiting and piracy.** While the governments are already actively engaging the business community, the NACC encourages taking this to a new level. Engaging private sector stakeholders directly with their international counterparts, as well as with the three governments, would ensure a comprehensive cross-border solution. Regular communication and information sharing are critical. The NACC specifically recommends joint seminars on enforcement strategies, development of a joint campaign to educate consumers on the issue, and support for efforts by industry and law enforcement agencies to share data and intelligence on counterfeiting and piracy investigations.

15. **Focus on trilateral collaboration to expand the supply of highly skilled people in the energy sector throughout North America.** Governments and businesses should organize an annual North American energy skills conference. This public-private conference should include energy companies, construction companies, energy ministry officials, local development planning authorities, training and education officials, immigration authorities, and

others with an interest in expanding the pool of highly skilled workers (degreed professionals and vocational labor) in the energy sector. A key goal should be to develop a model of collaboration that could also be applied to other knowledge-intensive sectors such as financial services.

To be absolutely clear, in accord with our mandate, the recommendations of the NACC do not suggest any measure that would threaten the sovereign power of any of the three countries. The NACC simply sees huge potential for greater cooperation—in managing borders, regulation, energy, and many other issues affecting the quality of life of the citizens of Canada, Mexico, and the United States, from responses to emergencies and pandemics to the environment and education.

The NAFTA made North America the most dynamic economic region in the world. Events of recent years have left our countries facing new challenges. By working together to make the most of the diverse strengths that Canada, Mexico, and the United States bring to the table, we can once again forge ahead of the pack and show the rest of the world how much can be accomplished by three great nations devoted to a common cause.

INTRODUCTION

At their summit in Cancún, Mexico, in March 2006, Prime Minister Stephen Harper of Canada, then-President Vicente Fox of Mexico, and President George W. Bush of the United States celebrated the first anniversary of the Security and Prosperity Partnership of North America (SPP).

The SPP was launched in 2005 as a trilateral initiative to express the shared commitment of Canada, Mexico, and the United States to increase security and enhance prosperity, improving the quality of life of the citizens of all three countries by providing an institutional framework that would help advance cooperation and information sharing across issues as diverse as security, transportation, the environment, and public health.

In June 2005, the three governments released detailed work plans identifying key initiatives that together formed an ambitious agenda of collaboration. Since then, governments have worked hard to implement these initiatives. Many will take months or years to be completed, but by March 2006, the Leaders already were able to note significant results.

The Leaders decided, however, that to build on the momentum of this work to accelerate progress toward the goal of making North America the most economically dynamic region in the world as well as a secure home for the citizens of all three countries, the SPP would benefit from more direct advice from the front lines of global commerce.

Recognizing that private sector involvement is key to enhancing North America's competitive position in global markets and is the driving force behind innovation and growth, with the creation of the North American Competitiveness Council (NACC) the Leaders provided a voice and a role for the private sector in the SPP process. The NACC is made up of senior representatives of the private sector from each country, with a mandate to provide high-level business input that would assist governments in enhancing North America's competitive position and engage the private sector as partners in finding solutions. In particular, the NACC is tasked with the following:

- Considering issues that could be addressed trilaterally or bilaterally, as improvements in our bilateral relationships enhance North American competitiveness.

- Addressing issues of immediate importance and providing strategic medium and long-term advice.

- Providing input on the compatibility of our security and prosperity agendas, given the linkages between security and prosperity in a global marketplace.

- Offering ideas on the private sector's role in promoting North American competitiveness.

The NACC is made up of 30 members with equal representation from Canada, Mexico, and the United States, with each country determining its own members and the membership selection process. Refer to Appendix III for a complete list of the NACC members in each country.

On June 15, 2006, Canadian Minister of Industry Maxime Bernier, Mexican Economy Minister Sergio Garcia de Alba, and U.S. Secretary of Commerce Carlos Gutierrez officially launched the NACC at a meeting with North American business leaders in Washington, DC.

After extensive consultation with hundreds of companies, sectoral associations, and chambers of commerce throughout Canada, Mexico, and the United States, the NACC met in Washington, DC on August 15 and agreed to focus its initial work on three broad priorities: border-crossing facilitation, standards and regulatory cooperation, and energy integration. Relevant stakeholders from all three countries remained actively engaged throughout the entire process and worked together to identify the most critical issues in each area and to develop practical solutions for resolving them.

This paper reflects the results and recommendations of these consultations and represents a trilateral consensus of business leaders on where action by governments could have the greatest impact in enabling enterprises in all three countries to compete more effectively in the global market and ensure that North America remains the most economically dynamic region of the world and a secure home for our people in this and future generations.

OUR VISION FOR NORTH AMERICA

Two decades ago, the idea that three economies as diverse as those of Canada, Mexico, and the United States could contemplate the wholesale elimination of trade barriers between them was considered so bold as to be barely credible.

But by 1993, the three countries had signed the North American Free Trade Agreement (NAFTA), which took the region to the leading edge of trade and investment liberalization globally. The result has been hugely positive for all three countries. Since its implementation, annual trade between the three countries has gone from US$297 billion to US$810 billion. Our countries now conduct US$2.2 billion in trade every day. Economic growth in all three countries has also been robust, with the real gross domestic product (GDP) rising over this period by 40% in Mexico, 48% in the United States, and 49% in Canada.

Beyond North America, though, the world has changed and continues to change dramatically. The emergence of new economic powers such as China and India is transforming patterns of trade and investment around the world, creating intense new competition for existing enterprises in every industry. Other countries have responded with more aggressive efforts to reduce their own barriers to trade, leading to a proliferation of new bilateral and regional agreements, chipping away at the relative advantages provided by the NAFTA. And the terrorist attacks of September 11, 2001, ushered in a new era of global conflict that has created a need to rethink the notion of security throughout the region.

Nonetheless, it is imperative that this heightened focus on security does not impede the economic efficiencies created by the NAFTA as companies in all three countries face the need to anticipate and adapt to changing markets more quickly than ever. Because production patterns within North America have become so closely integrated, any tightening of the borders between Canada, Mexico, and the United States threatens to erode the North American advantage created by the NAFTA. Goods imported into North America from overseas face customs inspection only once; goods produced and sold within the region, however, typically must cross borders many times as value is added to raw materials that eventually become finished goods.

Every measure that adds to the cost or time to cross borders within North America is in effect a tax on enterprise, a tax on investment, or a tax on jobs across the region, which ultimately results in incremental costs for the consumers in all three countries. Through the SPP, government Leaders have recognized that ensuring the safety and prosperity of the citizens of all three countries requires us to work together, and to the greatest extent possible, ensure that decisions about security and about economic policy are mutually reinforcing rather than conflicting.

The members of the NACC from all three countries agree that it is possible to achieve real progress in helping the North American economy as a whole work better while strengthening the security and well-being of its citizens.

To be absolutely clear, in accord with our mandate, the recommendations of the NACC do not suggest any measures that would threaten the sovereign power of any of the three countries. The NACC simply sees huge potential for greater cooperation—in managing borders, in cooperating on regulatory issues, in increasing the secure supply and distribution of energy, and in collaborating across a wide range of policies affecting the quality of life of our citizens, from responses to emergencies and pandemics to the environment and education.

The NAFTA made North America the most dynamic economic region in the world. Events of recent years have left our countries behind. But by working together to make the most of the diverse strengths that Canada, Mexico, and the United States bring to the table, we can once again forge ahead of the pack and show the rest of the world just how much can be accomplished by three great nations devoted to a common cause.

BORDER-CROSSING FACILITATION

The need for heightened security since 2001 has had the most direct impact in adding to costs and delays at border crossings within North America and therefore in undermining the competitive advantages provided by the NAFTA. The NACC therefore agrees that border crossing facilitation should be a top priority for the Leaders in advancing the goals of the SPP.

To achieve the goal of enhanced North American competitiveness, border crossings must become both more secure and more efficient for people and for merchandise alike. While increased security generally tends to lead to higher transaction costs at borders, we believe that making optimal use of available technology and streamlining border processes have the potential to strengthen security while minimizing and possibly even reducing the related economic burden.

This section reviews what governments already are doing to ensure the efficient and secure movement of people and goods into and within North America and offers recommendations on how to accelerate and build on these important initiatives. It offers short-, medium-, and long- term recommendations for actions in the following areas: emergency management and post-incident resumption of commerce, expansion and improvements to border infrastructure, the movement of goods and the movement of people.

These recommendations are focused on actions that could be taken to make clear improvements to the efficiency of commercial exchanges within North America. Some of the recommendations could be implemented quite quickly, and the NACC has flagged these for immediate attention. Action on these priorities will provide both concrete benefits in the short term and build a track record of successful cooperation, one that will enable the SPP to make a continuing contribution to the long-run competitiveness of North American enterprises.

EMERGENCY MANAGEMENT AND POST-INCIDENT RESUMPTION OF COMMERCE

Disasters, man-made or natural, can have tremendous implications across national borders, and the business communities of Canada, Mexico, and the United States agree on the need for a common approach to key aspects of emergency management.

The private sector has important responsibilities in preventing, as well as responding to, disasters. These responsibilities include protecting critical infrastructure—85% of which is owned or operated by the private sector—as well as training and planning to respond effectively to incidents. The private sector therefore must be a partner in a North American approach to emergency management and post-incident resumption of commerce.

The three Leaders of North America agreed at their 2006 summit in Cancún to work together to address the threat of avian influenza and pandemics and to adopt a series of principles to guide trilateral cooperation and management of potential disasters. This agreement is important because of the growing and significant threat of a global pandemic, its potential effect on human health worldwide, and the fact that few industries will be insulated from its economic effects.

The NACC fully supports these efforts by our three governments to address the pandemic threat. The latest example of such efforts is a joint declaration that commits the United States and Mexico to coordinate preparedness efforts, domestic and international disease surveillance activities, and response planning in the event of an outbreak of pandemic influenza. Moving forward, the three governments should develop an awareness campaign to educate business owners and leaders about the risks associated with the threat of pandemics and preparedness for the possibility of a pandemic. They also need to engage the broader public.

The three governments should be commended for the steps that they have taken thus far with respect to the threat of pandemics. As an overall recommendation, we suggest that a similar approach be taken more broadly across the full spectrum of emergency management issues.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Speed up development of national critical infrastructure protection strategies. All three North American governments should complete their national critical infrastructure protection strategies and vulnerability assessments within the next 12 months. The U.S. National Infrastructure Protection Plan, published in 2006, represents a positive step in the right direction. Owners and operators of the critical infrastructure (including transportation links, pipelines, electrical grids, financial services, and telecommunications networks) should be part of the planning and assessment phase, as should local, state, and provincial governments. Governments also must strengthen the collection, analysis, and sharing of intelligence related to infrastructure security with private sector owners and operators. Coordination between the three countries also will be important to provide a North American focus and guard against potential discrimination.

One of the most important next steps to critical infrastructure protection is establishing a set of rules that provide legal protection for companies that conduct risk assessments and share information on vulnerabilities with the appropriate government entities. Without legal and regulatory protection, companies risk exposure to antitrust sanctions stemming from sharing information or to lawsuits from customers over the disclosure of the companies' vulnerability to intentional interference or incapacitation. Further, there must be protection from access to information laws for confidential or commercially sensitive information provided to governments by companies in this context. The legal protections should logically extend to those companies that also offer services or technologies for infrastructure protection. Liability protections should be available cross border to encourage active industry participation in offering counterterrorism solutions while allowing industry to mitigate the legal risks that could be associated with a catastrophic event.

Enhance emergency management and pandemic preparedness through expanded use of specific disaster planning and simulations. Emergency preparedness simulations, with the involvement of the private sector, have proven to be very useful. They should be conducted on a regular basis across a range of threats and border points. Past simulations already have highlighted important issues to be addressed, including the need for improved and increased communications before and during the incident, development and maintenance of key contact lists, a coordinated joint command with a communication system previously approved, clear roles and responsibilities (including operational accountability) for all stakeholders during an emergency, ongoing reviews of emergency management and disaster recovery plans, and priority lists of low-risk goods and people approved beforehand.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Accelerate coordinated post-incident resumption of commerce protocols and planning at border crossings. The rapid resumption of commerce after a disastrous incident will depend upon pre-incident planning between every level of government and with the private sector. Any disaster recovery plan must address two-way communications as well as information sharing between governments, industry, and the general public. To accelerate trilateral progress, Canada, Mexico, and the United States should take the lead in developing a contingency plan by June 2007 that would encompass all transportation modes.

Agree and announce that FAST and NEXUS lanes and railway lines will reopen as soon as possible during times of emergency. The United States Customs and Border Protection Agency and the Canadian Border Services Agency should ensure that participants in low-risk programs, such as Customs Trade Partnership Against Terrorism (C-TPAT), Free and Secure Trade Program (FAST), and NEXUS, receive priority treatment during post-incident resumption of trade. Governments should work with companies that have invested in these low-risk programs to ensure that plans and protocols are in place to facilitate border crossings under all security conditions.

IMPROVING BORDER INFRASTRUCTURE

Despite significant efforts to reduce wait times, businesses in all three countries continue to be concerned with the level of congestion at truck and automobile ports of entry along the Canada-U.S. and Mexico-U.S. borders. The increased integration flowing from the NAFTA was already straining the capacity of border infrastructure prior to 9/11. The subsequent tightening of security measures makes continued investment in border infrastructure a critical priority for all three governments. Failure to act on this front will have serious consequences for North American competitiveness.

The NACC recognizes and supports efforts underway to expand capacity at critical border points within North America. These plans should be accelerated wherever possible, with immediate priorities being increased staffing and more and longer FAST lanes at major crossing points. Governments should also think more strategically and consider in particular the development of designated trade corridors and intermodal transportation infrastructure, as well as better integration of short-sea shipping.

On the Canada-U.S. border, governments at all levels are actively engaged in projects to expand and improve border infrastructure. Such efforts often require the involvement of multiple levels of government, resulting in delays that have negative economic consequences for the business community.

Adequate infrastructure capacity at the Canada-U.S. border matters to both the manufacturing and commodity sectors. More than 40% of the daily US$1.2 billion in trade between the two countries takes place at the four international land-border crossings in the Detroit-Windsor region. Over the next 30 years, cross-border truck traffic is expected to increase by 130%, and significant additional investment therefore will be required at these high-volume border crossings. At stake are more than 50,000 jobs and lost production potential estimated at US$13.4 billion.

On the Mexico-U.S. border, governments also should fully evaluate moving customs processes inland to take pressure off infrastructure at the border. Investment in increased capacity at high-volume border crossings also will be necessary. The operating hours of customs as well as other inspection agencies should be lengthened and harmonized between the United States and Mexico. The NACC supports efforts to examine bottlenecks and identify potential improvements in the capacity and efficiency of border infrastructure.

In addressing land bottlenecks, governments also should consider the potential for expanded waterborne traffic within North America, including short-sea routes on the Great Lakes and routes between ports in Mexico and the United States. In particular, the United States should include key Mexican ports in its Megaports Initiative, in which it teams up with other countries to screen cargo at major international seaports. This Initiative, launched in 2003, has three main objectives: deterring terrorists from using the world's seaports to ship illicit materials; detecting nuclear or radioactive materials if shipped via sea cargo; and interdicting harmful material before it can be used against the United States or an allied country.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Agree to implement before the end of 2007 planned land preclearance pilot projects. Moving customs processes further away and inland from the actual border crossings has the potential to reduce border congestion considerably. The original 30-point Smart Border accord called for development of land preclearance pilot projects, and most of the issues surrounding these projects seem to have been resolved. The governments should move quickly to complete their evaluations and negotiations and move forward with implementation.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Accelerate work on the border crossing infrastructure in the Detroit-Windsor region through the Bi-National Partnership process and the Detroit River International Crossing Study. The infrastructure in this region is extremely important to the economies of Canada and the United States as well as to the NAFTA-wide supply chain security. Given the age and condition of the existing infrastructure, and vulnerability to unforeseen circumstances, high priority should be given to ensure adequate and reliable bridge-crossing capacity in the Detroit-Windsor region, including capacity that can accommodate the transport of dangerous goods. U.S. and Canadian governments should also invest in infrastructure and capacity improvements at other high-volume crossings, including at Blaine, Washington; Buffalo, New York; and Calais, Maine.

Include major Mexican ports in the United States Megaports Initiative. This should begin with Lázaro Cardenas and then expand to include Manzanillo, Altamira and Veracruz. Investment in the necessary security infrastructure at these ports would enhance both the security and the efficiency of the North American multimodal transportation network and help to reduce bottlenecks at land-border crossings.

MOVEMENT OF GOODS

In Cancún, the Leaders agreed to a 24-month time frame for progress on a wide range of measures aimed at increasing the security of North America as a whole. These measures include a risk-management approach to screening for goods and people, compatible electronic and communications processes for supply-chain security, standards and options for the use of secure documents to facilitate cross-border travel, and mutual assistance in criminal and security investigations. The NACC agrees that the best way to strengthen the competitiveness of North America through the more efficient movement of goods between our three countries is to enhance the protection of the region from external threats.

Despite efforts of governments to balance the twin goals of enhancing security and facilitating trade, costs at the borders are continuing to rise and delays are still common. The NACC is also concerned about congestion at North American ports of entry, which creates inefficiencies in the movement of cargo between North America and trading partners outside the region.

Between 2000 and 2004, the application of new layers of security and more complex rules and regulations has tripled the processing time to enter the United States from Mexico and Canada by truck. The costs of these efforts have been estimated at up to US$11.5 billion annually in Canada and the United States alone.

This can have a dramatic impact on the competitiveness of North American businesses. A typical shipload of 4,000 cars being imported into North America faces a single customs transaction, while an equivalent number of cars produced and sold within North America would face a staggering 28,200 customs transactions because of the frequency with which this highly integrated industry ships parts and subassemblies back and forth in the course of production. Each North American-produced vehicle in effect crosses the border more than seven times during production. Each crossing results in additional costs from border delays, security, and customs processing. These additional costs, not faced by offshore manufacturers, contribute to a significant competitive disadvantage for manufacturers in North America and ultimately lead to higher prices for consumers.

In other words, companies that try hardest to take full advantage of a highly integrated North American marketplace are instead being penalized. In addition, the costs of heightened security within North America are being applied unevenly across transportation modes. For instance, screening rates using Vehicle and Cargo Inspection System (VACIS) technology are higher for rail than for other modes of transportation, with virtually all rail cargo entering the United States across land borders subject to VACIS screening. And despite efforts to centralize and streamline security functions in each country, there are still 44 agencies with some level of jurisdiction at the Canada-U.S. border alone. The need for coordination between these agencies is critical.

Much can and should be done to implement and build on the Canada-United States and Mexico-United States Smart Border accords in streamlining the secure movement of goods within North America, but progress on this front would be aided immeasurably by development of a comprehensive and effective strategy for clearing goods at point of first entry to the region.

Achieving the long-term objective of creating seamless borders within North America involves more than improved security. More simplified customs processing practices and improved logistics alone could lead to savings as high as 5% of the cost of a product. For example, rules-of-origin costs remain an ongoing issue for the private sector, especially now that tariffs between the three countries have fallen to zero on so many products. The governments should aim to simplify and align customs processes as much as possible.

Governments must also be careful not to take new actions that undermine or reverse the goals of the SPP without clear and compelling reasons. For instance, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) published an interim rule in the *Federal Register* on August 26, 2006, without engaging stakeholders in advance, which would remove the exemption from user fees for all conveyances and airline passengers originating in Canada. The rule imposes fees of US$5.25 per truckload, US$7.50 per railcar, US$488 per vessel and US$5.00 per airline passenger, costing businesses and travelers an estimated US$75 million per year. The rule would also significantly increase the transit time and burden of transporting people and goods from Canada.

APHIS claims that the fees are necessary to fund the hiring of additional inspectors to inspect all conveyances and airline passengers from Canada for plant diseases and animal pests. Under the rule, all conveyances, irrespective of whether they pose a risk of importing plant diseases or animal pests, would be inspected. Requiring 100% agricultural inspections of all shipments is an inefficient use of limited resources. We see no reason to inspect or to impose a fee on shipments that are clearly low-risk shipments, such as auto parts or machinery.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Improve the benefits of voluntary business participation in security programs. More efficient and faster processing, as well as the elimination of duplicative applications, will result in increased participation in these programs, especially by small and medium-size enterprises. Governments and industry working together should take the following actions:

- Agree on a common set of minimum criteria and benefits as well as a single registration process for participation in Customs-Trade Partnership Against Terrorism (C-TPAT) and Partnership in Protection (PIP).
- Ensure that PIP and C-TPAT are modeled on the World Customs Organization Framework of Standards to Secure and Facilitate Global Trade.
- Provide more effective training to customs personnel to ensure that they can provide the highest possible level of service.
- Ensure sufficient staffing at border crossings.
- During 2007, accelerate the expansion of NEXUS and FAST programs to other major border crossings, both land and air.
- Refrain from regulating C-TPAT/FAST/PIP and maintain a flexible, voluntary approach to supply-chain security.
- Collaborate with the private sector to incorporate the "GreenLane" concept of providing companies with tiered benefits in voluntary security programs to allow for quicker clearance of low-risk shipments and to eliminate duplicate inspections.

Further simplify the NAFTA rules-of-origin requirements. Two phases of simplification to the rules of origin under the NAFTA have been completed successfully, covering more than US$30 billion in trilateral trade. A third phase of public consultations has just been completed and the resulting package of proposals for further simplification should be implemented as soon as possible. The next step should be to complete the planned technical changes to the rules-of-origin requirements flowing from changes in the harmonized system of tariff classification on schedule in 2007, and then to begin a fourth phase that would reduce transaction costs within North America by simplifying rules-of-origin requirements.

Simplify the NAFTA certification process and requirements. The long-term goal should be to eliminate the NAFTA certificate on shipments. In the meantime, targeted changes could reduce a significant administrative burden on producers and increase their flexibility in sourcing components for use in the production of finished goods. This would make it easier for manufacturers to qualify for the NAFTA duty-free rates and result in enhanced trilateral trade. The following specific actions to simplify the certification process should be implemented in the short term:

- Governments should consider moving to either a multiyear or an automatic renewal process for NAFTA certification.
- Governments should consider modifying the commercial invoice to include a field that would acknowledge NAFTA certification, as is done now in the Canadian Low Value Shipment system.

- Remove the mandate for using only approved NAFTA certification forms (e.g., CF 434) to claim NAFTA duty preference on imports and allow use of certification statements for this purpose.
- Accept electronic transmission of NAFTA certificates and recognition of electronic signatures.

Withdraw or suspend the U.S. Animal and Plant Health Inspection Service (APHIS) interim rule of August 26, 2006. APHIS failed to engage stakeholders prior to issuing the interim rule, bypassing the usual rulemaking process. The NACC recommends that the U.S. and Canada, in consultation with the private sector, launch bilateral discussions to identify legitimate risks related to plant pests and animal diseases and to determine the most appropriate means of mitigating these risks while minimizing disruption to legitimate trade. APHIS should also consider less costly and less intrusive means of protecting the American public and agricultural products. For example, the agency should limit inspections and fees to only those shipments that pose a high risk of importing plant pests or animal diseases. Finally, APHIS has also failed to demonstrate the need for additional inspectors. The NACC recommends that APHIS conduct a study to quantify the risk and determine inspection needs before imposing a costly new fee on U.S.-Canadian trade.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Eliminate duplicate screening and overlapping requirements for cargo. Greater cooperation is required to eliminate duplicate screening of a given container at both its port of entry and at the Canada-U.S. border.

Convert border requirements from paper to electronic data processing. This should apply to all information required for advance notice or other border clearance purposes by all departments and agencies in all three countries. In the case of Canada and the United States, this means expanding existing customs electronic manifest processes to all other government departments involved at the border.

Coordinate regulatory requirements and improve collaboration among agencies. Such coordination should ensure that border-related requirements in all three countries are risk based, with a cost-benefit analysis to justify their imposition.

Standardize and raise thresholds for authorized low-value shipments via courier companies. At present, the Canadian threshold of shipments via courier companies (suppliers of express delivery services irrespective of the mode of transport) that qualify for inspection and verification through review of prearrival shipment information and on-site presence of customs personnel is below that of the United States. Raising the Canadian and Mexican thresholds to the U.S. level would offer a number of benefits including lower operating costs, greater operational efficiencies, shifting of staff to higher risk priorities, faster customs clearance processing, lower cost processing for low-value goods, and improved delivery certainty. This would require dealing with certain national issues such as differences in liability rules, but it would demonstrate that governments are committed to fostering an efficient and effective regional trading environment.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Develop a comprehensive North American customs clearance system or fully compatible national systems. The goal is to facilitate the exchange of information. The United States Commercial Environment/International Trade Data System (ACE/ITDS) provides a compelling starting point for work with Canada and Mexico in the development of such a system. All government agencies in all three countries should agree to participate and cooperate as ACE/ITDS becomes a proven concept.

Develop a common North American system for transmitting both import and export information. Government agencies should finalize their efforts to roll out their respective electronic advance systems for road and rail cargo. The Advanced Commercial Information system (ACI) in Canada and ACE in the United States should be rolled out for all modes within 24 to 36 months. The private sectors in both countries should share best practices to help offset the costs of ACE and ACI compliance.

Make further investments in research toward an economically viable container security device incorporating "smart box" or "smart seal" technology. This already is a priority for the United States and should be a priority for Canada and Mexico as well.

Simplify and improve customs processes. The exchange of goods between the three NAFTA partners should be further enhanced over the medium to long term. To this end, the three governments should work toward the following:

- Improve the coordination of their customs certification programs, including streamlined government-industry communications.
- Allow periodic customs filings rather than the filing of paperwork on a transaction-by-transaction basis.
- Implement a single consistent in-bond transit system and process.
- Increase gift remission and *de minimus* limits in Canada, Mexico, and the United States via mail or courier. This would allow our customs borders agency personnel to be shifted to high-risk areas of inspection.
- Utilize a risk-based approach in the development and implementation of any new regulatory requirements.
- Ensure that security measures are consistently applied from one inland port to another to support an even flow of goods across the border.

- Work to provide a more effective retroactive claim process to allow for retroactive claims for preferential treatment. While the United States and Canada have effective systems in place, Mexico's system needs to be improved.

THE MOVEMENT OF PEOPLE

A competitive North America depends on the efficient movement of people and not just goods within the region.

A single joint trusted traveler program is needed as soon as possible. The three governments are currently working on developing standards for alternative forms of identification, including the introduction of smart cards with embedded radio frequency identification (RFID) chips and biometrics, such as fingerprints and iris scans, to confirm an individual's identity and citizenship. Agencies in many government departments from all three countries are developing their own forms of secure identification cards to serve specific purposes. The result could be a plethora of new identification cards that may complicate rather than simplify the secure movement of people.

The Western Hemisphere Travel Initiative (WHTI) is a well-intentioned effort by the United States to strengthen its security but it threatens to do serious damage to the relationships between Canada, Mexico, and the United States and to undermine the economic competitiveness of businesses in all three countries.

The business community obtained changes in the law that set parameters to ensure that the U.S. government properly implements this Initiative - such as a deadline extension, mandated sharing of information between the three governments, and exceptions for traveling groups of children. WHTI requires all citizens of the United States, Canada, Bermuda, and Mexico to have a passport or other secure document proving identity and citizenship to enter or reenter the United States effective January 23, 2007 for air travelers and June 1, 2009, at the latest for sea and land-based travelers.

At present, approximately 25% of Americans and 40% of Canadians hold a valid passport. The WHTI requirements therefore seem likely to discourage cross-border travel, and poor implementation would harm both trade and tourism between the three countries. Current law gives the U.S. Departments of Homeland Security (DHS) and State (DoS) the discretion to develop low-cost, easily obtainable documents for travelers. On October 17, 2006, the Department of State, in consultation with the DHS, issued a proposal for new rules with respect to a new passport card. This card would carry the rights and privileges of a U.S. passport but could be used only at sea and land border points of entry.

The Department of State proposes to impose a reasonable application fee of US$20 for the new passport card, but then it imposes an additional “execution fee” of US$25 to all those applying in person, even those required to do so, such as first-time adult passport applicants, all minors under age 16, adults holding expired passports issued more than 15 years previously or when the bearer was a minor, and those applying for replacement passports that have been lost, stolen, or mutilated. In addition, there is currently about a US$15 fee for Polaroid pictures taken at the government application center. Thus, what starts as a reasonable US$20 alternative to the US$100+ passport cost (US$30, execution fee; US$67, application fee; and US$15, Polaroid picture fee) becomes a US$60 alternative.

The WHTI requirements by themselves will not achieve the desired outcome of enhanced border security. What is needed is a comprehensive strategy that includes new document requirements, technology, infrastructure, procedures, and training as well as the active participation of all three countries.

Whatever they do, governments must not allow WHTI requirements to undermine other improvements to speed processing at land crossings. Governments have made and will continue to make physical and logistical improvements to major border points with the aim of speeding the secure passage of travelers. Abrupt imposition of WHTI requirements could sharply reduce these benefits, and gradual implementation should be considered when the land border requirements come into effect.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Take the time to develop an effective, integrated, and joint trusted traveler system. To this end, governments should take the following steps:

- Use pilot projects to test security documents (such as a driver’s license or the proposed passport card) that would meet WHTI requirements.
- Focus on developing common standards to meet identification and citizenship requirements.
- Develop and adopt a new low-cost, easily obtainable identity and citizenship verification document as an alternative to the passport.
- Make sure the cost to the passport alternative is reasonable and does not burden it with the same additional fees already imposed on passport applications. For starters, there should be no execution or picture fee for the proposed passport card.
- Allow the proposed passport card for sea and land-border crossings to be used for crossings by air as well, provided that the technology works and is easily compatible.

- Consider the use of enhanced technology and infrastructure including RFID and biometric identifiers in combination with special processing lanes at border points.
- Exempt travelers who are minors from WHTI requirements.
- As another alternative to the passport, adapt an existing identification document that is close to being nondiscretionary, such as a driver's license or state identification card, for use as an identity and citizenship verification document by working with states and provinces willing to improve on such documents.
- Develop an outreach and communications plan in coordination with the private sector as soon as possible to ensure that businesses and the public in all three countries understand clearly what they will have to do and by when to comply with the new rules.

Integrate all NEXUS programs into a single program covering all transportation modes and employing multiple biometric identifiers. NEXUS should be expanded as quickly as possible to cover major land crossings as well as airports and seaports of entry. NEXUS and FAST cards should be recognized as accepted credentials that meet WHTI standards. NEXUS approval of individuals should not be predicated upon a specific vehicle or license plate number but on the individual alone.

Integrate existing credentialing programs so that they can interact with US-VISIT. Prior to full implementation of the WHTI, the US-VISIT border management program should interact with credentialing programs such as NEXUS, Registered Traveler, FAST, TWIC, BCC, and Hazardous Materials Endorsements, to allow border crossings with minimal or no interference for identified low-risk people. As with NEXUS and FAST, the cards for the other programs should also be recognized as accepted credentials that meet WHTI standards.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Develop an integrated credentialing program to identify low-risk people before they get to the border. A single, interoperable credential should be used for all programs directed at identified low-risk people so that they can cross the border with minimal or no interference.

STANDARDS AND REGULATORY COOPERATION

Trilateral efforts to cut unnecessary red tape in key sectors including agriculture, manufacturing, and services offer another critical avenue for enhancing North American competitiveness. As an example, while manufacturing generates reliable jobs, innovation and tax revenues at all levels of government, this sector is significantly hindered by unnecessary regulatory costs and barriers, such as redundant testing and certification requirements that impede the free flow of goods across the region.

Enhanced regulatory cooperation between Canada, Mexico, and the United States would benefit all the sectors highlighted above by reducing business costs and providing consumers with safer, less expensive, and more innovative products and services. By making regulations and standards more compatible and eliminating redundant testing and certification requirements, all three countries could increase efficiencies experienced by both businesses and governments alike and facilitate expanded trade in goods and services. This is why the Leaders already have identified cooperation on standards and regulations as a central element of the SPP agenda.

Although regulatory policy in Canada, Mexico, and the United States is often driven by similar goals, the regulations themselves often differ in ways that impede the efficiency and competitiveness of businesses in all three countries. While potentially significant cost savings make regulatory cooperation desirable, the need for integration to maintain North American competitiveness is making it imperative. In today's competitive global economy, these cost reductions could be decisive in determining whether industries expand in North America or relocate to foreign countries, such as China, where labor and structural costs are substantially lower.

This section proposes two broad measures to encourage competitiveness through greater regulatory compatibility and then makes recommendations for specific action in four critical areas: food and agriculture, financial services, transportation, and intellectual property (IP).

A NEW FRAMEWORK FOR REGULATORY COOPERATION

The economies of Canada, Mexico, and the United States are highly integrated. Close to 40% of Canada-U.S. bilateral trade is intrafirm, and the proportion is even larger between the United States and Mexico. Competitiveness at home and abroad means reducing costs and unnecessary barriers within North America. This is especially true given the increasingly challenging global marketplace. The region will constantly be confronted by regulatory differences that increase costs for North American businesses, both here and abroad, unless we find systemic, long-term ways to enhance regulatory compatibility.

Despite this reality, Canadian, Mexican, and U.S. regulations affecting commerce and trade often differ. In some cases, these differences can be explained by unique circumstances in each individual country; in many cases, however, there is no such explanation. Despite the best efforts of regulators in all three countries to cooperate and exchange information, differences continue to arise. Furthermore, even if the three countries were to succeed in eliminating unnecessary differences between existing rules, there would be little to prevent new differences from arising. A new approach to North American regulation is required.

In June 2005, Canada, Mexico, and the United States agreed to develop a trilateral Regulatory Cooperation Framework by 2007 that would support and expand existing cooperative efforts among regulators. The NACC strongly supports this goal.

Such a framework would provide crucial consistency as the three countries address two challenges: first, ensuring that new regulations created in all three countries are as compatible as possible across the region; and second, steadily reducing the number of unnecessary differences between existing standards and rules.

In reaching agreement on the new Regulatory Cooperation Framework, it will be important to establish the principle that a North American standard should be the default approach when crafting new regulations in all three countries. Each country would retain the sovereign right to set its own rules, but in principle, new rules should respect North American or international standards wherever they exist unless there are unique national circumstances or well-founded reasons to distrust the regulatory standards or practices of one of the North American partners. In the case of standards, this default approach could include North American agreement to use a widely accepted voluntary international standard. For instance, North American discussion of regulatory reform in financial services should acknowledge and be consistent with ongoing international initiatives.

All three governments should encourage their regulatory agencies to cooperate with their North American counterparts throughout the regulatory development process, from early analysis to drafting, implementing, and evaluating. Agencies should demonstrate in any regulatory impact analysis that they have explored North American approaches to regulation. Indeed, an overarching principle of the new Regulatory Cooperation Framework should be to require agencies to take into consideration as part of their cost-benefit analysis the trade effect of regulations that differ from North American standards.

The NACC expects that a well-crafted Regulatory Cooperation Framework would enable North American producers in many sectors of the economy to realize significant cost savings, pass these savings on to consumers, and be more competitive globally. With greater collaboration on regulation, we would also expect increased levels of health and safety across North America, as regulators develop a common knowledge base and share best practices.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Complete negotiations, sign a new North American Regulatory Cooperation Framework in 2007, and ensure consistent application of standards and regulatory requirements within each country. This framework should be based on the principle that both in drafting new regulations and in revising existing rules, regulatory authorities in all three countries should make every effort to reflect prevailing North American or international standards. Upon signature of the framework, a ***North American Regulatory Cooperation and Standards Committee, which includes the private sector, should be formed*** to survey on a regular basis the variety of standards and regulatory differences by industry that impede trade and seek to reduce the identified differences or develop other mechanisms to lessen their impact on the competitiveness of North American industry.

INTERNATIONAL STANDARDS

Original creation of common regulations by each of the governments and their regulators is problematic and costly. However, mechanisms already exist for the regulators of each NAFTA country to create simple regulations that make *mandatory* reference to private sector international standards. These are standards that already have been developed by the technical experts in their respective fields. Significantly, these standards already are compatible internationally—*and technical experts work to keep them up to date as technology evolves.*

As these technical experts come from companies, trade associations, consumers, non-governmental organizations, and government agencies, such international standards provide a well-balanced yet market-relevant mechanism to ensure effective regulatory compliance while at the same time facilitating trade.

Three-way trade between Canada, Mexico, and the United States reached approximately US$800 billion in 2005. The U.S. Department of Commerce has estimated that 80% of global merchandise trade is affected by standards and by regulations that embody standards. Taking this as a conservative estimate, this percentage applied to the trade numbers for the NAFTA countries yields a scope of influence due to standards between Canada, Mexico, and the United States of US$640 billion annually.

Today, not all regulators in Canada, Mexico, and the United States reference international private sector standards. This US$640 billion therefore represents heavily cost-burdened trade caused by inflexible requirements in the form of slow-changing and disparate technical regulations that cannot keep pace with the fast-moving changes of market technologies. Regulations that can and do reference international private sector standards do not suffer from this rigidity.

If the governments of the three NAFTA countries encouraged their regulators to reference compatible international private sector standards developed within each country, and if businesses invested to develop and keep these standards up to date with the latest technologies and market requirements, the result would be goods and services being delivered to market via the most efficient mechanisms possible. These goods and services would be guided by dynamic, market-relevant, internationally accepted, and *compatible* standards requirements that would ensure open trade, interoperability, and protection of health, safety, and the environment.

Fifteen years ago, in the area of electrical safety for business equipment such as laptops and telephones, Canada, Mexico, and the United States each had their own set of standards. Manufacturers were required to design and produce to at least six separate and redundant standards in order to sell into these three markets. Today, technical experts from all three NAFTA countries have worked together to develop one international standard—IEC 60950. Each NAFTA country, working through its respective national standards body—American National Standards Institute (ANSI), Dirección General de Normas (DGN) and Standards Council of Canada (SCC)—has adopted this international standard as a national standard. Regulators such as the U.S. Department of Labor, and the Occupational Safety and Health Administration (OSHA) now recognize compliance with this international standard as the primary regulatory requirement for such equipment.

The first level of cost savings is through alignment of technical requirements, which is up to industry. The alignment of these standards in this example represents a six-fold reduction in the cost of product design and regulatory compliance for the IT industry. Since such compliance can cost US$10,000 for every different product design for every product model, the impact of this alignment is clearly immense.

The second level of cost savings flows from the ability of manufacturers to meet regulatory requirements in each NAFTA country. If Canadian, Mexican, and U.S. regulators can reference such internationally compatible private sector standards, then alignment of technical criteria to facilitate cross-border trade is as simple as referencing the same standard. Each government should encourage its regulators to do just this.

In situations where the private sector has been approached and cannot create applicable standards, national regulatory authorities should be encouraged to consult and cooperate among themselves.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Require reference to international technical standards. Regulators drafting or revising rules in any of the three countries should be required to consider international technical standards where they exist. Both governments and industry should participate actively in the ongoing development of such standards globally. To this end, the Leaders should issue a communiqué in 2007 that would:

- Increase the awareness and visibility among high-level business and government leaders of existing policies in each country that allow the regulators to use and reference internationally accepted private sector standards to meet regulatory needs.

- Encourage NAFTA industry and government leaders to budget for, and actively participate in, international private sector standards development to harmonize technical and procedural criteria.

- Encourage national regulatory authorities in each country to consult and cooperate amongst themselves in the process of promulgating any new mandatory requirements and to reference compatible private sector standards in regulations wherever possible.

FOOD AND AGRICULTURE

Small differences in the regulation of food products can have an enormous impact on the ability to produce and market foods in all three NAFTA partner countries. Facilitating North American economies of scale by minimizing differences removes a significant impediment to food trade in North America and ensures full utilization of factories throughout North America.

Our objective is to create a safer and more reliable North American food supply, while facilitating agricultural trade. This includes pursuing common approaches to enhance food safety and to improve coordination in product standards, certification, and labeling.

Reducing distortions in trade and production that undermine competitiveness of the region's agricultural sectors is also a priority. Such distortions affect consumers directly as well as businesses that add value to agricultural products. We encourage authorities in North America to be aware of the kind of veiled protectionism that can be embedded in food safety regulations.

Fortified foods. With the current emphasis on health and wellness and obesity rates growing throughout North America, allowing companies to fortify products with ingredients or essential nutrients that are lost in production is essential. In addition, food fortification is an essential element in a well-balanced nutrition strategy to alleviate micronutrient deficiencies.

The approach to discretionary fortification limits is different in the United States and Canada. There is a concern that the difference in food fortification policies and practices limits the access to fortified foods, such as breakfast cereals or other products fortified with vitamins and minerals in the case of Canada. In the United States, Department of Agriculture policies also reject most fortification of meat and poultry products.

The ability to market products that are fortified with vitamins and minerals in all three North American countries would allow businesses to use the same labels throughout the region. This would result in significant cost savings for the industry. There also would be added health benefits from a consistent approach to food fortification. For example, the consistent ability to add calcium foliate, which reduces birth defects in children, would have enormous benefits to consumers.

Canada is reviewing its policy on food fortification in order to offer a wider range of fortified foods within the safe limits set by Health Canada and to reduce regulatory differences between Canada and the United States. In the United States, the Food and Drug Administration (FDA) also has published guidelines for the responsible fortification of foods under their jurisdiction.

Duplicate food safety audits. A number of issues, from restrictions on imports to duplicative food safety audits, hamper free trade in fruits and vegetables within the North American market. Various other forms of veiled protectionism are commonly present throughout the region in the form of sanitary and phytosanitary regulations, unnecessary specific norms, and packaging requirements. Industry-to-industry collaboration has worked to alleviate some of these barriers, but more needs to be done on the government side to enhance regulatory cooperation.

Equivalent methodologies and procedures, ones that can operate both independently and interdependently in the event of food safety concerns or plant health emergency scenarios, are essential in today's environment. Competing food safety programs add cost and decrease credibility, affecting the competitiveness of fresh fruit and vegetable growers and shippers, and downstream repackers, and wholesalers.

Labeling and health claims. Diverse standards on nutrition, allergens, and health claim regulation create unnecessary obstacles to trade. In addition, both the United States and Canada have enforcement procedures that needlessly require health certificate labeling on individual case shipments of meat and poultry-containing products, when packaging alternatives should be available to certify that the products meet applicable Canadian and American food safety laws and regulations.

The costs of meeting the regulatory demands of diverse labeling requirements are high. One U.S.-based company, for instance, has estimated that simply substituting placards on pallets in place of the laborious hand-stamping of individual case shipments destined for the United States from Canada would save it more than US$1 million per year.

Increased cooperation on labeling and health claims standards would enhance food safety and facilitate trade in North America eliminating non-tariff trade barriers that cause expensive and laborious processes and eventually higher prices for the consumers.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Standardize North American regulations on fortified foods. New policy is currently being developed in Canada to address this issue. We recommend close consultation in development of new regulations to allow sale of similarly fortified foods in all three NAFTA countries. Within the United States, the United States Department of Agriculture (USDA) should strongly consider adopting guidelines consistent with those of the FDA, specifically for processed products under its jurisdiction.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Eliminate duplicate food safety audits by making standards compatible. Initial steps have been taken to review and compare the identified food standards to determine similarities, differences, and the scientific basis for the differences. We recommend utilizing working groups of industry and government to develop overarching principles and objectives that would lead to the development of clear and concise hazard or risk management practices.

The three countries should aim to establish compatible standards and practices in the following areas: documentation and certification for cross-border food trade, regulatory criteria as they relate to animal health for trade among the NAFTA partners, and the list of products considered hazardous substances. The lists contained in the Canadian Domestic Substances List (DSL) and the U.S. Toxic Substance Control Act (TSCA) differ and prevent some U.S. products from being sold in Canada.

Trade in regulated products between Mexico and the United States would also be facilitated through cooperative arrangements where appropriate and other more flexible, lower-cost mechanisms for certifying are in conformance with health and safety requirements.

Explore common approaches to labeling and health claims. Governments should establish a new trilateral mechanism to explore common approaches to labeling in key areas such as nutrition, allergens, production and process methods, highlighted ingredients and misleading claims. In addition, both the United States and Canada should revise their interpretations of alternative packaging procedures, in consultation with Mexico, so that health certificate numbers, whose purpose is to certify that individual shipments meet USDA requirements at the time of shipping, are not required in every single case shipment. Particular attention needs to be paid to the development of mandatory nutrition labeling in Mexico during 2007.

FINANCIAL SERVICES

Efficient access to capital is essential for a competitive North American economy. Regulatory barriers between the North American partners unnecessarily add to the cost of capital and reduce returns to investors. These capital market barriers could be taken up as part of an expanded trilateral financial services dialogue and regulatory cooperation forum. The three countries would benefit from the exchange of regulatory best practices. Several specific initiatives should be considered.

Taxation of cross-border interest payments. The current United States-Canada tax treaty no longer reflects either the evolution of domestic tax policies or the needs of cross-border business and trade. The imposition of withholding taxes on cross-border interest payments has an immediate and negative economic impact. It poses an impediment to foreign direct investment by operating as a tariff on the free flow of capital, imposing a premium on the cost of capital and reducing access to borrowed funds.

For example, U.S. investors may require a higher rate of return on their savings in order to invest in Canada. Indeed, withholding taxes on interest payments are frequently shifted to the borrower, thereby increasing the cost of capital. Similarly, withholding taxes on royalties can raise the cost to Canadian business of accessing foreign technology, a key component of the knowledge-based economy.

Economic studies have shown a strong link between increased foreign direct investment and the elimination of withholding tax on income. A 2001 report by the C.D. Howe Institute demonstrated the benefits that Canada could realize by eliminating its withholding tax on interest and dividends on payments made to U.S. parties. This report estimated that eliminating the withholding taxes that U.S. investors pay on income received from Canada would result in an increase in capital investment in Canada of approximately CAD$28 billion (CAD$9.5 billion from eliminating the dividend withholding tax and CAD$18.6 billion from eliminating the interest withholding tax) and an annual income gain to Canadians of CAD$7.5 billion.

Eliminating only the withholding tax on interest would yield a gain in annual earnings (derived from new capital investment) of almost CAD$5.3 billion. The direct revenue loss to the federal government of eliminating withholding taxes on dividend and interest payments to U.S. taxpayers would be less than CAD$2 billion annually, but this would be substantially outweighed by positive economic benefits stemming from increased foreign investment and repatriation of earnings by Canadian business.

Restrictions on insurance investments. In Mexico, only 2% of Mexico-based insurers' investments may be offshore in contrast to 20% for pension companies. This restriction impedes the openness of capital markets and diversification of investments. Insurers, guided by prudent investment principles and proper risk management, should have access to and choice of their preferred investments, particularly in light of the need to match assets and liabilities for dollar-denominated products and to seek the highest returns for policyholders. Mexican regulation does allow insurers to invest in foreign issuers listed on the Mexican Securities Exchange. The limit on this type of investment is 5%; however, a new regulation is expected to increase this limit to 10% by 2007, a move in a positive direction.

Expanding the permissible investment options for North American insurers operating in Mexico would facilitate the ability of these institutions to diversify their investments and better match assets and liabilities while delivering an array of modern financial products and higher returns to customers.

Insurance coverage for cross-border carriers. There is a need to improve the availability and affordability of insurance coverage for carriers engaged in cross-border commerce in North America. Opening the door to cross-border insurance of long-haul trucking would contribute to improving access to capital and creating more intense competition in the insurance marketplace. Similarly, the viability of cross-border auto insurance policies should be explored, as this could benefit individuals traveling across borders by car and contribute to increased tourism flows.

The economic impact of such a policy change would be small at first because of the lack of current business relationships beyond the commercial border zones. Over time, however, if companies begin to find longer-haul cross-border traffic profitable, more competition would follow, insurers would increase their capacity, and trade flows would increase.

Capacity building and regulatory cooperation. Efficient access to capital is critical to developing a competitive North American economy, but regulatory barriers in each country add to the cost of capital, diminish returns to investors and limit the choices of consumers. Regulatory cooperation helps strengthen the financial systems of the three countries while maintaining high standards of investor protection. The exchange of ideas and best practices contributes to the more effective development and implementation of regulatory initiatives. At the same time, it provides financial sector supervisors with the tools to protect consumers and maintain the integrity of financial systems in North America.

Cross-border electronic trading. Investors in Canada, Mexico, and the United States are not currently able to make full use of available technology in accessing each others' capital markets. For example, while Canada's regulators do offer access to American exchanges, Canadian exchanges cannot be accessed electronically from the United States unless they register in the United States as national exchanges in the same manner as domestic exchanges. Mutual access to national exchanges would strengthen capital markets and result in the more efficient provision of securities services through reduced transactions costs and a lower cost of capital for firms.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Eliminate withholding taxes on cross-border interest payments between Canada and the United States. This measure can be implemented through the bilateral tax treaty talks that have been underway for several years.

Build capacity and enhance cooperation in financial regulation. Identify issues of common financial regulatory concern through consultation forums with key Canadian, Mexican, and U.S. financial experts from the public and private sectors. Evaluate current technical assistance programs for bank, securities and insurance regulators and supervisors and determine the need for new training areas and encourage trilateral collaboration in the development of training programs for financial regulators.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Launch discussions on a trilateral tax treaty. In addition to completing the Canada-U.S. negotiations on withholding taxes as quickly as possible, the three North American partners should initiate discussions toward negotiation of a trilateral tax treaty that would provide clear rules governing tax matters affecting trade and investment between the three countries.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Increase the percentage of assets that Mexico-based North American insurers are allowed to invest overseas. This would have a significant positive effect on the ability of insurers to appropriately match assets and liabilities, improve rates of return for policyholders, diversify investments, and address concerns about policyholder and company concentration of risks.

Explore new mechanisms for the cross-border provision of insurance coverage for long-haul trucking and automobile travel. As a first step, governments should aim to increase the number of U.S. and Canadian insurers working with Mexican motor carriers. They should also assess the potential benefits of allowing joint insurance coverage for cross-border long-haul trucking and automobile travel and consider enabling Canadian insurers to directly insure drivers in the United States without involving U.S. registered insurers.

Enhance cross-border transactions through direct access to the existing electronic trading platforms of stock and derivative exchanges across the region. The first step toward this goal is to encourage dialogue between relevant authorities in all three countries regarding ways to achieve bidirectional access to electronic trading screens in coordination with the private sector.

TRANSPORTATION

Enabling carriers to offer North American producers and consumers the most efficient transportation services is critical to the competitiveness and prosperity of the region. Unnecessary regulatory constraints exist that hinder the ability of carriers to offer their customers the most efficient and economical transportation options. For example, air cargo carriers of one country are prevented from operating direct flights beyond points in the other country to destinations in third countries. Rail carriers must submit to duplicative inspections that only add cost and introduce delays. These regulations result in needless added expenses, lengthen supply chains, and encumber the access of North American producers to markets both within the region and globally.

A key priority should be enhanced access to competitive air services throughout the NAFTA region. Measured by value, 40% of world trade moves by air, and that proportion increases every year.

Air cargo transport services are regulated by a network of intergovernmental bilateral agreements. In November 2005, Canada and the United States signed a highly liberalized Open Skies bilateral agreement. With regard to air cargo, it will eliminate a number of anachronistic restrictions that prevent the carriers of both countries from serving the market as efficiently as possible. In particular, U.S. and Canadian carriers will be permitted to operate unrestricted Fifth Freedom services carrying traffic between the other country and intermediate points as well as to and from points beyond the other country. In addition, Seventh Freedom all-cargo services will be permitted, whereby turnaround services may be operated between the other country and points in third countries (e.g., a Canadian carrier could operate a New York-Paris flight with no link to Canada at all, and a U.S. carrier could operate a Toronto-Paris flight with no link to the United States at all).

However, the U.S.-Mexico aviation relationship continues to be governed by a highly restrictive bilateral agreement that prevents the cargo carriers of either country from exercising any traffic rights at all at intermediate points en route to the other country or to or from points beyond the other country. Accordingly, shippers in both Mexico and the United States are denied access to the full range of competitive air service options that otherwise would be possible.

The expanded opportunities for air cargo carriers made available under liberalized bilateral agreements have been shown time and again to generate enormous economic benefits for the communities that receive the new air cargo service. Express carriers, in particular, operate networks which generally connect 95% of the world's GDP within 48 to 72 hours. Thus, as the global economy continues to seek the efficiencies made possible by shortened supply chains, access to such networks is an increasingly essential ingredient for attracting investment and building prosperity. In addition, affording express carriers the regulatory flexibility to structure such networks as efficiently as possible, for example, by enabling them to incorporate new Fifth Freedom routes directly linking points in third countries, produces economies that benefit shippers, consumers, and the broader economy.

Railways are another crucial path for cross-border flows. Important process reforms are improving railroad system fluidity in the U.S.-Mexico border region through a new customs prefiling system and documentation improvements. As a result, rail service has improved and exposure to illicit activities has been reduced. However, some additional and relatively straightforward process improvements would have measurable impact on further improvement.

For instance, the U.S. Federal Railroad Administration (FRA) requirement to inspect freight cars every 1,000 miles does not currently recognize inspections performed in Mexico. Therefore, a car inspected in Nuevo Laredo by certified personnel using FRA criteria must be reinspected in Laredo. This process is duplicative, costly, and contributes to congestion and stopped trains within communities at vital border crossings.

Cross-border security and efficiency can be improved by expanding the FRA's waiver program for mechanical inspections performed by FRA-certified inspectors, either railroad inspectors or their private contractors, at near-border rail yards in Mexico, thereby avoiding dual inspections in both Mexico and the United States for cross-border rail traffic. This proposal would improve rail system security, velocity, and fluidity at international border crossings and thus expand capacity, trade, and economic growth.

Finally, there are important efficiencies that can be attained by increasing the compatibility of standards and regulatory processes affecting motor carriers. This is important as nearly 80% of the value of trade between Mexico and the United States and 64% of the value of trade between Canada and the United States move by commercial trucking.

Although much has been accomplished in licensing compatibility and other areas, motor carriers from Canada, Mexico, and the United States continue to face challenges due to differing regulatory processes between the three countries. For instance, differing minimum rest periods and maximum driving and work periods for commercial truck drivers—known as Hours of Service (HOS) rules—require separate regulatory paperwork requirements. Other regulatory areas requiring improved harmonization include load-securement regulations and their enforcement, breaking seals on trailers, and transportation of hazardous materials.

Therefore, the dialogue between the three countries should be renewed to improve the harmonization or at least the compatibility of standards and regulations impacting both drivers and equipment. A higher degree of compatibility in the rules and standards applicable to motor carriers would improve the competitiveness of North America as a whole.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Modify the air cargo transport services agreement between the United States and Mexico. The two countries should agree to provide for open and unrestricted Fifth Freedom traffic rights at intermediate points between the two countries and beyond each other's territory. Mexican air cargo carriers would be allowed to operate beyond points in the United States to points in Canada, Asia, and Europe and elsewhere, and U.S. air cargo carriers would be allowed, insofar as Mexico is concerned, to operate beyond points in Mexico to points in Central and South America, the Caribbean, and so on. Affording such rights may well have a positive effect on the viability of marginal routes between the United States and Mexico, which currently receive insufficient or no direct air cargo service. For example, if U.S. carriers could operate beyond Oaxaca to Guatemala City, they might be able to justify increased service between Oaxaca and their gateways and hubs in the United States. Similarly, if Mexican cargo carriers could operate beyond Los Angeles to Asia, they might be able to justify increased services between their gateways and hubs in Mexico and Los Angeles.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Expand the United States Federal Railroad Administration's existing waiver process to allow FRA-certified inspectors to conduct inspections in Mexico. This waiver should apply to either railroad inspectors or their private contractors, for inspections carried out at near-border rail yards in Mexico using FRA criteria. This would avoid the need for dual inspections by both Mexico and the United States for international trains coming into the United States from Mexico.

Reengage the Land Transport Standards Subcommittee/Transportation Consultative Group (LTSS/TCG) to continue the dialogue involving the public and private sectors toward the development of compatible rules and standards in the following focus areas: (1) regulations governing the minimum rest periods and maximum driving and work periods for commercial truck drivers (Hours of Service rules), (2) load securement standards, and (3) equipment, technology, and maintenance standards.

INTELLECTUAL PROPERTY RIGHTS

Effective protection of intellectual property rights (IPR) is critical to promoting North American innovation and competitiveness. Counterfeiting of trademarks and piracy of copyrighted works take away incentives for the additional investment in research and development that is necessary to sustain economic growth in North America. In particular, violations of IPR in North America are a significant cost for industry in terms of lost sales and for governments in terms of lost tax revenues. In addition, counterfeiting and piracy pose a real threat to consumer health and safety. Greater cooperation among the three governments in combating such theft would significantly increase the effectiveness and efficiency of individual government efforts and provide greater benefit and protection to innovators and consumers in North America.

Counterfeiting and piracy cost the U.S. economy an estimated US$200 billion to US$250 billion per year. Canada and Mexico are believed to suffer comparable losses. For instance, the International Intellectual Property Alliance has estimated that total trade losses associated with copyright piracy alone (business software, records and music, motion pictures entertainment software and books) in 2005 at US$698.6 million in Canada and US$1.2 million in Mexico.

Counterfeiting and piracy are priority issues for the government-to-government SPP IPR Task Force**.** The three governments are working on a coordinated IPR strategy that will emphasize improved detection and deterrence of piracy and counterfeiting, criminal enforcement, increased public awareness and outreach to the business communities, and ways to measure progress. The Task Force is also exploring the formation of transborder sectoral working groups to develop practical industry-specific solutions to problems. Formation of industry sectors is under consideration. We fully support formation of such a group as soon as possible and stress the importance of continued and increased cooperation with industry.

While the governments of the three North American countries have a critical role to play in attacking the growing threat of counterfeiting and piracy, the business community also has a part to play. The governments and the private sector can work together to raise the awareness of IPR issues and industry best practices and should seek to collaborate where possible.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Complete the coordinated Intellectual Property Rights Strategy. The tripartite Intellectual Property Rights Task Force should develop an action-oriented, practical IPR strategy for approval by Ministers as early as possible in 2007. Sector-specific industry-to-industry working groups should be formed as soon as possible and develop industry-specific action plans.

Develop a public-private North American initiative to tackle counterfeiting and piracy. While the governments are already actively engaging the business community, the NACC encourages taking this to a new level. Engaging private sector stakeholders directly with their international counterparts, as well as with the three governments, will ensure a comprehensive cross-border solution. Regular communication and information sharing is critical. The NACC specifically recommends joint seminars on enforcement strategies, working together on a joint campaign to educate consumers on the issue, and it supports efforts by industry and law enforcement to share data and intelligence on counterfeiting and piracy investigations.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Build intelligence capabilities. One area for action is to support Interpol's creation of a global IP database, the creation of a full-time anti-counterfeiting and piracy police force, and subsequent joint industry and law enforcement actions to collectively target transnational intellectual property criminal activity.

Take steps to combat DVD piracy and consumer goods counterfeiting. One area for action that would have significant impact in all three countries would be to take additional steps to combat DVD piracy and consumer goods counterfeiting. Several practical steps already have been identified, and we recommend that governments agree to implement the following measures as soon as possible: development of a list of protected titles and target products so that law enforcement can easily identify prima facie pirated and counterfeit material; promotion of joint government and industry efforts to educate audiences about losses from DVD piracy; establishment of "fake-free zones" around theaters and malls; and licensing the importation of industrial-capacity DVD burners.

ENERGY INTEGRATION

The Canada-U.S. energy market is already well integrated as a result of the Free Trade Agreement (FTA) and NAFTA, and trade in energy products is arguably the most efficient and obstacle-free aspect of that important economic relationship. The single biggest challenge to maximizing the benefits of energy integration on a continental basis, however, is the need for energy sector reforms in Mexico. The NACC acknowledges that it is the exclusive role of Mexican public and private sectors to set forward the development requirements in this sector and to lead the initiatives that will increase its competitiveness. Once the strategic needs and potential courses of action are identified by Mexico, the expertise and resource contributions from Canada or the United States should be considered only in a supportive role, if required, in the objectives inspired by Mexican stakeholders.

Accordingly, much of this section deals with practical suggestions that can reduce specific obstacles to energy integration in the short-term, while recognizing that broader reforms raise legislative issues and matters of national sovereignty.

Of increasing concern to all three countries is how further integration can promote energy security while also enhancing the international competitiveness of our respective economies. Aside from the benefits of sheer geographical proximity and greater connectedness of energy delivery systems, closer integration within North America can help to develop untapped energy potential and reduce reliance on importation from more distant and less secure energy suppliers.

Secure access to global energy resources on market terms is a strategic imperative for the United States. Although the United States has abundant energy resources and is also a world leader in the production of renewable energy, the country is also the world's largest consumer of energy. The devastation wrought by Hurricanes Katrina and Rita was a tangible reminder of the potential impact on the health of the U.S. economy and the well-being of U.S. citizens when energy supplies are interrupted. Few issues have as significant a strategic national component. At the same time, Canada and Mexico have been blessed with abundant energy resources, which, if developed efficiently and effectively, can be a leading engine of regional development and an important contributor to global competitiveness.

Canada has a critical role to play in North American energy security as the world's second-largest source of petroleum reserves, and because of its other energy resources such as natural gas, coal, uranium, and hydropower. Also, its leadership in technologies such as carbon capture and sequestration and hydrogen fuel cells can help deal both with environmental challenges as well as with the need to diversify energy supply.

If Mexico were to fully liberalize its energy sector, that country's relatively abundant reserves of oil and gas would attract significant investment and technology. However, failure to liberalize Mexico's energy sector has stalled the investment process, and constitutional change is still perceived as unlikely in the short term.

Although reform of Mexico's energy sector is a domestic issue, which as noted above is in principle beyond the scope of the NACC, the sizable economic benefit that could be unlocked by intermediate initiatives more than justifies bringing it to the table. In doing so, we are confident that as the gains from intermediate initiatives come to fruition, the logic of an integrated market will set the pace for fundamental reform, instead of continuing to wait for the reverse to happen. In this sense, the more that day-to-day operations are linked to a deeper and more efficient market, the more evident benefits from market integration will become, as will the inefficiencies flowing from Mexico's current policies.

As part of the Cancún Energy Security Initiative, Ministers responsible for energy policy in the three countries have agreed to focus on a few immediate priorities, and the NACC wishes to reinforce the importance of practical action in the following areas:

- Cross-border energy distribution systems
- Energy efficiency standards and programs
- Development of environmentally sustainable energy technologies
- Expansion of the supply of clean energy and the deployment of advanced energy technologies

Beyond this trilateral agenda, the NACC believes that it is worth exploring the potential for action within individual countries and on a bilateral basis. Recognizing that it is the exclusive role of the Mexican public and private sectors to determine the agenda, there seems to be potential for meaningful reform within Mexico in the liberalization of trade, storage, and distribution of refined products and in the efficiency of the state-owned enterprise Petróleos Mexicanos (PEMEX) through changes in organization and governance. The NACC also sees considerable potential for assisting the longer-term development of Mexico's energy sector through cooperative programs aimed at strengthening its human resource base in the energy sector.

CROSS-BORDER ENERGY DISTRIBUTION

The abrupt and prolonged blackout that affected large swaths of the United States and Canada in August 2003 illustrated both how reliant the region is on cross-border energy trade. It also demonstrated the risks that flow from insufficient attention to the compatibility and reliability of that interconnectedness. Greater efforts are required to ensure protection of critical energy infrastructure and effective integration of cross-border energy distribution systems in all three countries.

In addition, Mexico faces a particular challenge in meeting its growing demand for electricity. Over the next 10 years, Mexico's demand for electricity is expected to grow to exceed today's installed capacity in the vicinity of 20,000 to 23,000 megawatts (MW). The challenge posed by this growth in consumption has two significant dimensions. On the one hand, facing new demand requires investments of approximately US$10 billion. On the other, fueling new generating capacity would alleviate projected shortages over the next decade.

Several factors preclude an easy way out of the anticipated shortage:

- Investment in electricity generation, transmission and distribution remains constitutionally reserved to the Mexican federal government with very few restrictive exceptions in self-generation.

- The Mexican public sector is facing fiscal constraints and has an extensive list of competing infrastructure projects.

- Unlike the United States and Canada, Mexico lacks abundant coal reserves and adequate railroads to operate low-cost, coal-fired generation facilities. As a consequence, likely investments in new generation capacity would be combined-cycle natural gas facilities adding pressure to the region's growing natural gas deficit.

As a counterpart, U.S. independent power producers along the Gulf of Mexico have excess capacity and have expressed an interest in engaging in long-term contracts with Mexican corporations. Interconnection with Mexico would be a suitable option for those producers, given the limited interconnectivity of the Eastern Power Grid with the Western and Texan Power Grids.

Interconnectivity has become a priority to improve system efficiency and to enhance supply reliability for the entire region. Although interconnections between Mexico and the United States are already in place with a combined capacity of nearly 1,000 MW, several compatibility, security, and environmental issues need to be resolved to safely expand the interconnection network. A comprehensive energy policy should address a new liberalized and integrated energy market, ensuring that prices alone determine the rationing of energy products and sources.

To illustrate the interconnection potential, according to the Energy Information Administration, in 2005 electricity trade between Canada and the United States exceeded 63 million MW/hour, while total electricity trade between the United States and Mexico totaled 2 million MW/hour. Accordingly, several interconnection projects are under way between the Comisión Federal de Electricidad (CFE) and U.S. utility companies. However, sizable growth potential remains capped by CFE's budget and management capacity constraints, necessitating private sector participation in the process.

Allowing Mexican companies to sign long-term contracts that would justify the necessary infrastructure would have huge economic benefits. Under very conservative assumptions, the economic value of its implementation exceeds US$33 billion in net present value.

The main challenge for this short-term energy initiative is to draft and negotiate economically viable investment burden-sharing contracts, and to deal with technical, environmental, and security issues under National Energy Regulatory Commission (NERC) and Federal Energy Regulatory Commission (FERC) guidelines for safety and critical infrastructure integrity. Eventually, healthy growth of interconnectivity would also require a sound North American regulatory arrangement to prevent unilateral actions that could compromise supply on either side of the border.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Strengthen trilateral collaboration on cross-border energy distribution issues. An integrated economy requires effective coordination of energy distribution across borders. Ensuring a reliable supply of energy requires trilateral cooperation across a range of issues, including the security of cross-border infrastructure and effective environmental regulation. The Energy Security Initiative should give priority to this issue over the next two years.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Enable Mexican corporations (including CFE) to engage in long-term contracts for the purchase of electricity from U.S. producers. We estimate that this process would require about three years: the first to obtain necessary government and regulatory approvals; the second to negotiate private-sector contracts; and the third to build the necessary infrastructure.

HUMAN RESOURCE DEVELOPMENT

Growing world energy demand is causing strong competition for the skills required to develop energy resources. This problem is expected to remain at or near the top of the list of challenges facing the industry in the future. Not only are technical skills within energy fields in short supply, but areas with potentially thriving energy economies are hindered because of lack of services and construction labor needed to support the growth in local infrastructure required to serve expanding energy investment. Governments and industry need to cooperate and develop new policies to ensure that North America captures and retains the skills required by both energy industries and the communities that support them.

Until recently, North America had a plentiful supply of engineers, scientists, and skilled tradespeople flowing both from domestic educational institutions and from immigration. Now, however, enrollment in energy curricula at North American universities is down and competition for graduates is high—with an ever-increasing pull from growing economies in Asia and elsewhere. At a time when North American labor needs are increasing, supplies are smaller and facing strong competitive pulls from outside the region.

This growing global competition for skilled labor is a particular challenge for Mexico. Coming on top of its restrictions on energy investment, the lack of technical competence in Mexico creates a further bottleneck to the expansion of Mexico's energy sector. The already low levels of enrollment in oil engineering, geophysics, and other energy-related specialties have been followed by even greater drops in enrollment during the past decade.

At the same time, budget allocations for research and development in oil sciences and energy-related studies have declined, widening the knowledge gap between Mexico and the rest of North America. The lack of specialized human capital is both a cause and an effect of the limited prospects in the energy sector. In addition to whatever measures it takes to expand financial investment in its energy sector, there is a critical need for Mexico to make significant investments in human capital.

By working cooperatively, Canada, Mexico, and the United States can address these challenges. The three countries should immediately convene a conference to define their shared human resource issues, identify the hindrances and opportunities, and shape a path forward. Among items to be considered are specific labor requirements and locations, pools of potential workers, means of addressing training deficiencies, and temporary migration policies. Given the current explosive growth in energy development in Western Canada and the resulting shortfalls in labor and infrastructure in that region, it would make sense for the first conference to be held in

Calgary, Alberta, with subsequent events in energy-intensive regions of the United States and Mexico.

Such a conference would enable the NAFTA partners to explore other means of meeting important needs in the short term while also contributing to the longer-term development of energy security and supply across the region. For instance, Canada and Mexico already are developing bilateral programs to enhance temporary exchanges of skilled labor in the energy sector.

Under the umbrella of the Canada-Mexico Partnership, they should explore ways to facilitate the temporary movement of Mexican energy workers to Canada in the short term, when Canada faces a severe shortage of skilled labor as it expands dramatically its oil sands production. This, in turn, would expand the supply of Mexicans with extensive and up-to-date experience in energy technologies, so that Mexico will, when it sees fit to do so, have the people needed to drive the growth of its own energy resources. In addition to exploring exchanges in the petroleum sector, Canada and Mexico should consider the development of a similar program that would help Mexico to train people in the nuclear energy sector.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2007

Organize an annual North American energy skills conference to explore collaboration in human resource development. This public-private conference should include energy companies, construction companies, energy ministry officials, local development planning authorities, training and education officials, immigration authorities, and others with an interest in expanding the pool of highly skilled workers (degreed professionals and vocational labor) in the energy sector. A key goal should be to develop a model of collaboration that also could be applied in other knowledge-intensive sectors such as financial services.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Expand temporary exchanges of students, academics and technically skilled labor in the energy sector. As a starting point, Canada and Mexico should proceed as quickly as possible to enhance temporary movement and skills training in the energy sector through the Canada–Mexico Partnership. The United States should consider the potential benefits of similar programs.

SUSTAINABILITY AND ENERGY TECHNOLOGIES

North America has the potential to be the locus of important areas of technology development that could contribute to more efficient energy production, as well as research and development of leading-edge technologies that could assist other countries in meeting the challenge of expanding energy supply in an environmentally sustainable manner. This includes both technologies that reduce the environmental impact of conventional fossil fuels, such as clean coal and carbon capture and storage, as well as expansion of low or noncarbon fuels such as renewables, biofuels, and hydrogen.

Governments need to work with private sector leaders in all three countries to identify the most promising areas of collaboration on clean energy technology development, and how best to leverage expertise and resources both from the private sector and within government.

The three governments should devote more attention to aligning and strengthening energy efficiency standards and programs. As an example, a 20% improvement in energy efficiency within the United States would save the equivalent of 9 million barrels of oil daily across all energy sources. Around 3 million barrels of oil per day of this would be direct savings of oil consumption – over a third of 2005 U.S. oil imports. Similar relative savings could be availed from added energy efficiencies in Canada and Mexico.

In addition, a focused effort is needed to identify current barriers to clean energy supply and the deployment of advanced energy technologies, and the most practical means to overcome such barriers. A private-public sector conference should be convened in the near future to begin such collaboration.

Mexico's gap in energy efficiency, sustainability, and the development of renewable energy sources relative to the United States and Canada should be addressed promptly. Clearly, convergence on environmental standards is a necessary condition for true energy market integration over the longer term. Greater cooperation in these areas is needed and should be promoted trilaterally.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Develop new mechanisms to collaborate on research and deployment of clean energy technologies. All three countries have an interest in the development of new energy technologies that will enhance the competitiveness of North American enterprises while reducing pollution and greenhouse gas emissions. Also, it is critical to ensure that enterprises have the right incentives to deploy these new technologies as they are developed. Perhaps beginning with a trilateral public-private conference, Canada, Mexico, and the United States should coordinate their efforts to identify the most promising avenues for research, concentrate resources on these technologies, and remove barriers to their rapid adoption and deployment once developed.

Encourage trilateral convergence on energy efficiency and sustainability. This requires in particular cooperative efforts to encourage Mexico's ongoing legislative agenda for the promotion of renewable energy, bioenergy, alternative fuels and energy-efficient public housing.

MEXICAN DOMESTIC POLICY REFORM

While Mexico's efforts to expand the development of its considerable energy resources are limited by the provisions of its Constitution, there are promising avenues for progress within these constraints. Recognizing the nature and strategic importance of the energy sector in Mexico, the NACC acknowledges that it is the exclusive role of Mexican public and private sectors to set forward the development requirements in this sector and to lead the initiatives that will increase its competitiveness.

Once the strategic needs and potential courses of action are identified by Mexico, the expertise and resource contributions from Canada or the United States should be considered only in a supportive role, if required, in the objectives inspired by Mexican stakeholders.

Although the following ideas are beyond the scope of the NACC, the NACC sees potential in two particular areas: the liberalization of rules governing trade, storage and distribution of refined products and corporate reforms within the state-owned monopoly, PEMEX.

Recent efforts to bring operating autonomy, increased accountability, and corporate governance standards face the same adverse political dynamics that stall fundamental reform in the energy sector. While such issues pertain to the Mexican policy agenda and are beyond the scope of NACC, much can be done at the trilateral level to push for efficiency objectives in PEMEX.

In addition to the ongoing legislative process around corporate reform in PEMEX, publicizing a trilateral benchmarking exercise which illustrates PEMEX's operational gap vis-à-vis private oil companies would help unveil inefficiencies and highlight the huge economic potential from liberalization.

One possibility that should be explored is the potential spin-off of the nonassociated gas industry from PEMEX into a separate state-owned entity. This might circumvent current impediments to highly profitable exploration and production projects that today cannot be pursued within PEMEX's capital budgeting constraints.

Without matching growth in natural gas production, increased natural gas consumption in Mexico during the last decade has caused the country to shift from being a net exporter to a net importer. Increased consumption by CFE and PEMEX explain a significant fraction of consumption growth. The growing deficit (roughly 1 billion cubic feet per day [Bcf/d] is equivalent to nearly a third of current Mexican consumption. The failure of production to keep pace with consumption is linked to a lack of sufficient investment in exploration and production of Mexico's vast natural gas reserves, likely to be found alongside the Northern Gulf coastline.

Although internal rates of return in natural gas projects are sizeable at current and foreseeable natural gas prices, capital budgeting rules within PEMEX result in foregoing nonassociated gas projects which, although highly profitable, cannot compete with the returns of associated gas projects.

Beyond reforms to the governance and organization of PEMEX, there is potential for liberalization in other aspects of energy policy. In 1995, for instance, important modifications to the complementary Mexican law of constitutional Article 27 were enacted to liberalize import, storage, and distribution of natural gas and liquified natural gas. Before the law was changed, PEMEX had the exclusive rights to the reserves. The amendments also allowed for a cross-border private network of pipelines.

Although liberalization was restricted to imported gas (constitutional restrictions on exploration and production are still binding), partial liberalization brought along increased flexibility and certainty to industrial consumers affording them the option to engage in long-term contracts. The new arrangement also eased pressure on PEMEX to service increased demand. The same logic can be directly translated to the refined products market.

Mexico's declining refining capacity is also a result of restricted investment by PEMEX due to private investment restrictions and budgeting constraints. As a result, Mexican imports of refined products (mainly gasoline and diesel) continue to grow and today stand at more than US$6 billion a year, which has lead to increased fuel prices throughout the country.

Under the current scenario of limited refining capacity in North America, and in anticipation of increased demand, a proper regulatory environment should be put in place to allow for an efficient flow of refined products. This would allow for the countries to maximize the storage and distribution capacity of multinational oil companies with distribution capabilities in the United States.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Issue a benchmark analysis that illustrates PEMEX's operating and financial performance gaps. This analysis should link these performance gaps to corporate governance issues and give the Mexican government a compelling case for proceeding with structural changes to the governance and operations of PEMEX within the country's constitutional framework.

Liberalize trade, storage and distribution of refined products. Taking advantage of the benefits and legislative experience gained through the gas liberalization process, this recommendation would also bring about important flexibility and increase options of industrial consumers of refined products. This recommendation would include the construction, ownership and operation of pipelines. The retail-level ramifications would be a leap forward in bringing market pressure and discipline to PEMEX distribution operations.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2010

Spin off PEMEX's nonassociated gas activities to constitute a separate state-owned entity, Gasmex. A separate balance sheet would raise today's capital budgeting restrictions to expand natural gas production at the pace required by current levels of consumption. This intermediate initiative is consistent with the longer-term objective of the liberalization of the Mexican hydrocarbon sector.

ENHANCED DIALOGUE AND COOPERATION

The North American Energy Working Group (NAEWG) has had great success in fostering cooperation between the three nations of North America and is working closely together on integrating markets and resolving issues. The NAEWG is an excellent example of the possible benefits that can be derived from international energy cooperation and collaboration.

However, with the many challenges to meet North America's supply and demand outlook and with vigorous growth around the world and the region, the NACC views the need for dialogue and cooperation to be more urgent than ever. Evolving and expanding the NAEWG to allow for greater dialogue with the private sector is an essential next step. Great benefit could be obtained in creating a series of strong initiatives and joint projects to better understand the choices that need to be made in order to complement the achievements of the NAEWG.

One recommendation would be to create a North American Energy Outlook, encompassing all available sources to provide an improved understanding of future scenarios as a guide in policy planning. All three countries have their own outlooks, which often reflect the profound interdependence that exists between them. An integrated trilateral North American Energy Outlook could be very valuable to the NAFTA partners.

In terms of dialogue mechanisms, in addition to the existing efforts at the national level of the three countries, it could be useful to develop another process that brings together the main energy producing states or provinces of the NAFTA partners to exchange vital information, learn from one another, and better coordinate action. Efforts to tune initiatives into the most supportable and actionable endeavors can be enhanced by inclusion of state and municipal governmental entities, which have a more discerning eye to local conditions and idiosyncrasies. Indeed, the extent to which local entities are engaged will play a key role in enabling or undermining success.

Finally, the creation of a North American Energy Council, a permanent forum for discussion among the three governments and the state and private energy companies operating in the NAFTA region, would be a big step forward and would create space for a public-private dialogue. While this is a long-term initiative, such an Energy Council could help steer efforts such as the North American Energy Outlook and ensure that proper input from all interested stakeholders is provided to the overall North American public planning processes. Further, a public-private forum could help as a sounding board for government policies and could serve as a depository of thinking and expertise encompassing all the main players across the energy industry.

WHAT GOVERNMENTS SHOULD ACCOMPLISH BY 2008

Expand the NAEWG to include an expert group focused on enhanced dialogue and cooperation. We recommend the creation of a North American energy dialogue architecture, encompassing (1) the creation of a periodic North American Energy Outlook that reviews supply and demand trends 25 years into the future, (2) the creation of a biannual meeting of North American Energy Governors similar to the U.S.-Mexico and U.S.-Canada border Governors' conferences, and (3) the eventual creation of a North American Energy Council as a permanent forum for government-company, whether public or private, interaction.

A MORE SECURE AND PROSPEROUS NORTH AMERICA: THE PATH FORWARD

The central goal of the Security and Prosperity Partnership of North America is to enable Canada, Mexico, and the United States to increase security and enhance prosperity by working together, thus improving the quality of life of their citizens. Each of the three countries brings unique strengths to the table. Each can contribute meaningfully to the development of a more prosperous and more secure North America. And each can benefit from concerted efforts to make the most of their opportunities within a highly competitive global market through greater collaboration and information sharing on issues of mutual concern.

In launching the SPP, the Leaders of Canada, Mexico, and the United States recognized the importance of moving toward broad, long-term goals in small steps. Most of the 300 individual elements included in the initial work plan laid out in 2005 were modest in scope, but taken as a whole, this agenda has the potential to make a major contribution to the long-term well-being of people in all three countries. In this first report of the North American Competitiveness Council, the NACC members have stayed true to this philosophy, which they believe will have a meaningful impact on the future course of the three countries. In some cases, the recommendations suggest new ideas; in others, they reinforce the importance of the work that the governments already have under way. Throughout the document, suggestions are provided on how the private sector can actively participate in finding solutions.

While the NACC has limited these recommendations to measures that could be accomplished by 2010 at the latest, it is prepared in future years to tackle broader and more strategic issues that lie beyond the current scope of the SPP, to the extent that Leaders would find such a contribution helpful. Indeed, the active participation of literally hundreds of companies, sectoral associations and chambers of commerce throughout North America highlights the importance that the private sector in all three countries places on this process, as well as their willingness to work together with the three governments to find solutions.

The NACC looks forward to discussing these recommendations with responsible security and prosperity ministers early in 2007. Through this discussion the NACC looks forward to refining its thoughts for presentation to the Leaders later in the year. The NACC thanks the Leaders for their confidence and hopes that it has lived up to their expectations in offering meaningful advice on how to help North America as a whole work better to build a wealthier future for citizens in Canada, Mexico, and the United States alike.

APPENDICES

I. ACRONYM LIST
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APPENDIX I: ACRONYM LIST

ACE/ITDS	Automated Commercial Environment/International Trade Data System
ACI	Advanced Commercial Information
ANSI	American National Standards Institute
APHIS	Animal and Plant Health Inspection Service
BCC	Border Crossing Card
Bcf/d	Billion cubic feet per day
CAD	Canadian dollars
CFE	Comisión Federal de Electricidad
C-TPAT	Customs Trade Partnership Against Terrorism
DGN	Dirección General de Normas
DHS	Department of Homeland Security
DSL	Domestic Substances List
DVD	Digital Video Disc
FAST	Free and Secure Trade Program
FDA	Food and Drug Administration
FERC	Federal Energy Regulatory Commission
FRA	Federal Railroad Administration
FTA	Free Trade Agreement
HOS	Hours of Service
IPR	Intellectual Property Rights
LTSS/TCG	Land Transport Standards Subcommittee/Transportation Consultative Group
MW	Megawatts
NACC	North American Competitiveness Council
NAEWG	North American Energy Working Group
NAFTA	North American Free Trade Agreement
NERC	National Energy Regulatory Commission
OSHA	Occupational Safety and Health Administration
PEMEX	Petróleos Mexicanos
PIP	Partnership in Protection
RFID	Radio Frequency Identification
SCC	Standards Council of Canada
SPP	Security and Prosperity Partnership
TSCA	Toxic Substance Control Act
TWIC	Transportation Worker Identification Credential Program
US	United States
USDA	United States Department of Agriculture
VACIS	Vehicle and Cargo Inspection System
WHTI	Western Hemisphere Travel Initiative

APPENDIX II: ABOUT THE SECRETARIATS

Canadian Secretariat

The Canadian Council of Chief Executives (CCCE) is Canada's premier business association, with an outstanding record of achievement in matching entrepreneurial initiative with sound public policy choices. Our member CEOs and entrepreneurs represent all sectors of the Canadian economy. The companies they lead collectively administer CAD$3.2 trillion in assets, have annual revenues in excess of CAD$750 billion, and are responsible for the vast majority of Canada's exports, investment, research and development, and training.

Mexican Secretariat

The **Mexican Institute for Competitiveness** (Instituto Mexicano para la Competitividad-IMCO) is a private applied research center devoted to studying issues that affect Mexico's competitiveness in a context of an open market economy. IMCO is a not-for-profit, independent, non-partisan institution which operates thanks to private sponsors grants. Founded in 2003, the Institute seeks to compete successfully in the "market of ideas" by preparing and issuing sound proposals for public policies based on objective approaches to systematically improve Mexico's ability to attract and retain investments.

U.S. Secretariat

The Council of the Americas is a business organization whose members share a commitment to democracy, open markets, and the rule of law throughout the Americas. The Council of the Americas' programming and advocacy aim to inform, encourage, and promote free and integrated markets for the benefit of the companies that comprise our membership, as well as of the United States and all the people of the Americas. The Council supports these policies in the belief that they provide an effective means of achieving the economic growth and prosperity on which the business interests of its members depend.

The U.S. Chamber of Commerce is the world's largest business federation representing more than 3 million businesses of all sizes, sectors, and regions. It includes hundreds of associations, thousands of local chambers, and more than 100 American Chambers of Commerce in 91 countries.

APPENDIX III: LIST OF MEMBERS OF THE NACC

Canada

- **Dominic D'Alessandro**, President and CEO, Manulife Financial
- **Paul Desmarais, Jr.**, Chairman and Co-CEO, Power Corporation of Canada
- **David A. Ganong**, President, Ganong Bros. Limited
- **Richard L. George**, President and CEO, Suncor Energy Inc.
- **E. Hunter Harrison**, President and CEO, Canadian National Railway Company
- **Linda Hasenfratz**, CEO, Linamar Corporation
- **Michael Sabia**, President and CEO, Bell Canada Enterprises (BCE)
- **James A. Shepherd**, President and CEO, Canfor Corporation
- **Annette Verschuren**, President, The Home Depot Canada
- **Richard E. Waugh**, President and CEO, The Bank of Nova Scotia

Mexico

- **José Luís Barraza**, President, Consejo Coordinador Empresarial (CCE) and CEO of Grupo Impulso, Realiza & Asociados, Inmobiliaria Realiza and Optima
- **Gastón Azcárraga**, President, Consejo Mexicano de Hombres de Negocios (CMHN) and CEO of Mexicana de Aviación and Grupo Posadas
- **León Halkin**, President, Confederación de Cámaras Industriales (CONCAMIN) and Chairman of the Board and CEO of four companies in the industrial and real estate markets
- **Valentín Díez**, President, Consejo Mexicano de Comercio Exterior (COMCE) and former Vicepresident of Grupo Modelo.
- **Jaime Yesaki**, President, Consejo Nacional Agropecuario (CNA) and CEO of several Poultry companies.
- **Claudio X. González**, President, Centro de Estudios Económicos del Sector Privado (CEESP) and Chairman of the Board and CEO Kimberly-Clark de Mexico
- **Guillermo Vogel**, Vice President, TAMSA (Tubos de Acero de México)
- **César de Anda Molina**, President and CEO, Avicar de Occidente
- **Tomás González Sada**, President and CEO, Grupo CYDSA
- **Alfredo Moisés Ceja**, President, Finca Montegrande

United States

- **Campbell Soup Company**
- **Chevron Corporation**
- **Ford Motor Company**
- **FedEx Corporation**
- **General Electric Company**
- **General Motors Corp.**
- **Kansas City Southern**
- **Lockheed Martin Corporation**
- **Merck & Co., Inc.**
- **Mittal Steel USA**
- **New York Life Insurance Company**
- **The Procter & Gamble Company** (joined in 2007)
- **UPS**
- **Wal-Mart Stores, Inc.**
- **Whirlpool Corporation**

APPENDIX IV: SUMMARY OF RECOMMENDATIONS FOR 2008 AND 2010

BORDER-CROSSING FACILITATION

Emergency Management and post-incident resumption of commerce

2008

- Accelerate coordinated post-incident resumption of commerce protocols and planning at border crossings.
- Agree and announce that FAST and NEXUS lanes and railway lines will re-open as soon as possible during times of emergency.

Improving Border Infrastructure

2008

- Accelerate work on the border crossing infrastructure in the Detroit-Windsor region.
- Include major Mexican ports in the United States Megaports Initiative.

Movement of Goods

2008

- Eliminate duplicate screening and overlapping requirements for cargo.
- Convert border requirements from paper to electronic data processing.
- Coordinate regulatory requirements and improve collaboration among agencies.
- Standardize and raise thresholds for authorized low value shipments via courier companies.

2010

- Develop a comprehensive North American customs clearance system or fully compatible national systems.
- Develop a common North American system for transmitting both import and export information.
- Make further investments in research toward an economically viable container security device incorporating "smart box" or "smart seal" technology.
- Simplify and improve customs processes.

Movement of People

2008

- Take the time to develop an effective, integrated and joint trusted traveler system.
- Integrate all NEXUS programs into a single program covering all transportation modes and employing multiple biometric identifiers.
- Integrate existing credentialing programs so they can interact with US-VISIT.

2010

- Develop an integrated credentialing program to identify low risk people before they get to the border.

STANDARDS AND REGULATORY COOPERATION

Food and Agriculture

2008

- Standardize North American regulations on fortified food.

2010

- Eliminate duplicate food safety audits by making standards compatible.
- Explore common approaches to labeling and health claims.

Financial Services

2008

- Launch discussions on a trilateral tax treaty.

2010

- Increase the percentage of assets that Mexico-based North American insurers are allowed to invest overseas.
- Explore new mechanisms for the cross-border provision of insurance coverage for long-haul trucking and automobile travel.
- Enhance cross-border transactions through direct access to the existing electronic trading platforms of stock and derivative exchanges across the region.

Transportation

2008

- Expand the United States Federal Railroad Administration's existing waiver process to allow FRA-certified inspectors to conduct inspections in Mexico.
- Reengage the Land Transport Standards Subcommittee/Transportation Consultative Group (LTSS/TCG) to continue the dialogue involving the public and private sectors.

Intellectual Property Rights

2008

- Build intelligence capabilities.
- Take steps to combat DVD piracy and consumer goods counterfeiting.

ENERGY INTEGRATION

Cross-border Energy Distribution

2008

- Strengthen trilateral collaboration on cross-border energy distribution issues.

2010

- Enable Mexican corporations (including CFE) to engage in long-term contracts for the purchase of electricity from U.S. producers.

Human Resource Development

2008

- Expand temporary exchanges of students, academics and technically skilled labor in the energy sector.

Sustainability and Energy Technologies

2008

- Develop new mechanisms to collaborate on research and deployment of clean energy technologies.
- Encourage trilateral convergence on energy efficiency and sustainability.

Mexican Domestic Policy Reform

2008

- Issue a benchmark analysis that illustrates PEMEX's operating and financial performance gaps.
- Liberalize trade, storage and distribution of refined products.

2010

- Spin off PEMEX's non-associated gas activities to constitute a separate state-owned entity, "Gasmex."

Enhanced Dialogue and Cooperation

2008

- Expand the NAEWG to include an expert group focused on enhanced dialogue and cooperation.